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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000182

SIPDIS

STATE FOR NEA/ARPI BERNS
COMMERCE FOR ITA/MAC/ONE LOUSTAUNAU AND HOFFMAN

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TAGS: [ECON](#) [EFIN](#) [ECPS](#) [PGOV](#) [BA](#)
SUBJECT: BATELCO CHAIRMAN ON FINANCIAL SECTOR,
TELECOMMUNICATIONS, AND REFORM

Classified By: AMBASSADOR WILLIAM T. MONROE
REASONS 1.4 (B) AND (D).

1. (C) Summary. Long-time senior banker in Bahrain, Hassan Juma, told the Ambassador that Bahrain will face challenges and regional competition in its efforts to maintain its position as a regional financial hub, but that it has an important advantage in its strong financial regulatory system. Juma was recently named Chairman of local telecommunications company Batelco, and recognizes that Batelco must diversify and upgrade its services, especially as the telecommunications sector continues to liberalize. He spoke optimistically about political and economic reform in the region, saying that, while there will be "teething problems," people are finally willing to admit they have problems and recognize the need for change and reform. End Summary.

2. (SBU) Hassan Juma, CEO of the National Bank of Bahrain for the last 20 years, was recently appointed Chairman of Bahrain's leading telecommunications company Batelco (he has served on the Batelco board for several years). The Ambassador, in a February 6 conversation, sought Juma's views on prospects in the two key sectors of banking and telecom.

Financial Sector

3. (C) Juma said the demise of Beirut as a banking center in the 1970s' and the influx of Gulf petrodollars contributed to Bahrain's development as a financial hub some 30 years ago. Companies came to the Gulf chasing contracts, and their banks followed. Bahrain built a strong financial regulatory system, developed its own niche in Islamic banking, and did not face any real regional competition. However, Bahrain's challenge in maintaining its position as a regional financial hub in the coming years will be more daunting. Dubai has its own aspirations, and has a track record of success when it sets goals. Even Qatar is looking at developing its financial sector, and has much greater financial resources than Bahrain. Juma was nonetheless reasonably optimistic that Bahrain could hold its own. Bahrain's greatest advantage is its strong regulatory system, something that cannot be built overnight by its competitors. So far, Dubai appears to be focusing on fund management, an area that Bahrain has not concentrated on.

4. (C) More broadly, Juma was critical of Gulf countries for their failure to diversify their economies. Although Bahrain has not been blessed with the energy resources of its neighbors, it too has not managed its economy well. It has been left with white elephant projects that have become burdensome on the economy and a welfare system that is no longer affordable. He said 80 percent of Bahrain's budget goes to recurring expenses such as salaries and social security, an amount that is much too high.

Telecommunications

5. (SBU) Juma said Batelco must review its commercial operations as Bahrain's telecommunications sector opens up and new players enter the market. (In December, the Telecommunications Regulatory Authority announced it would award 36 new licenses, including eight ISPs (internet service providers), five VSATs (very small aperture terminals), 15 VASs (value-added services), and five ISLs (international telecommunication services licenses). Juma does not expect much competition or interest in the fixed-line market as Batelco has been operating at a loss and the economics are not encouraging for a competitor entering such a small market. Although the mobile phone market is expanding, the two service providers currently present, Batelco and MTC-Vodafone, have sufficient capacity to handle demand. A third provider would have a tough challenge entering the market. However, he stated there is room for growth among Internet Service Providers. (Note: Internet service is currently slow, something Juma -- and the press -- attributes to the severing of a main marine cable by a barge.)

16. (SBU) Juma said that because Bahrain is small, Batelco has had to look abroad for growth. Its current ventures abroad (partnering in Saudi Arabia, Jordan, Egypt, and Kuwait) have had mixed results, according to Juma.

Change and Reform

17. (C) Despite the challenges ahead Juma said he is optimistic about Bahrain's future. Juma stated that throughout the region people have generally come to believe there is a need for change and reform. He said in the past the biggest difficulty to overcome was getting individuals and governments to admit they had problems. Now, he said, people are beginning to talk about them. Juma said Bahrain and the region will experience "teething problems," as change is always difficult. However, he noted Bahrain has established a participatory parliament which will help alleviate some of the "short-term pain."

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